



THE SAN DIEGO STADIUM SITUATION:

THE NEED FOR A CREATIVE PUBLIC/PRIVATE INFRASTRUCTURE PARTNERSHIP

The last decade has produced unprecedented development of “entertainment infrastructure” both nationally and internationally. Overall, there have been 256 sports, arts, convention, and entertainment facilities developed in the United States this decade at a total cost of over \$19.4 billion. This is part of the overall \$3.5 trillion spent in infrastructure development since 1990.

All told, in the last 12 years, there have been 82 major league stadiums and arenas modernized or developed (at a cost of \$12 billion). This is in addition to 70 minor league facilities, 12 motorsports facilities, and 30 convention centers.

Around the NFL this year, five teams will be christening their new venues: the Detroit Lions open the \$312 million Ford Field in downtown Detroit; the Seattle Seahawks dedicate the \$299 million Seahawks Stadium this year; the Houston Texans begin play in their new \$310 million Reliant Stadium; the New England Patriots open the \$336 million Gillette Field; and the Green Bay Packers begin play in their \$295 million Lambeau Field restoration project (to be completed next year). In fact, there have been 21 facilities developed or substantially modernized for National Football League teams since 1995, at a cost of over \$7 billion – stadium activity unmatched in any sport.

Clearly, regional leaders now understand that the development of stadiums, arenas, motorsports facilities, convention facilities, performing arts centers, public golf centers, and other “entertainment infrastructure” is a critical component of the ongoing maturation of a region. In each region, four specific areas must be analyzed: (i) National Football League economics and the need for new “economically competitive facilities”; (ii) financial characteristics of the public/private partnership model; (iii) community impacts and justifications for “entertainment infrastructure” development; and (iv) overall guidelines and parameters concerning the development process.

I. NATIONAL FOOTBALL LEAGUE ECONOMICS AND THE NEED FOR NEW “ECONOMICALLY COMPETITIVE FACILITIES”

NFL teams share revenues to a larger extent than in any other major sports league. Teams share national television, national radio, ticket sales, and royalties from NFL Business Ventures – approximately 82 percent of total revenues are shared. Teams do not, however, share stadium revenues (e.g., concessions, parking, luxury suites, club seats, naming rights, advertising), and local television and radio. The practical implication is that teams in larger media markets effectively support and provide a subsidy to teams in smaller media markets. This explains why smaller market teams – such as San Diego and Green Bay – can compete economically in the NFL against large markets such as New York and Chicago.

A team's stadium situation – not its market size – determines whether a team is a higher-than-average revenue team (a so-called “have”) or a lower-than-average revenue team (a so-called “have not”). A team's stadium situation depends on: (1) the building itself (i.e., is it new or old?); (2) the stadium's revenue potential (i.e., does it contain amenities fans will pay for?); and (3) the lease.

“Haves” play in stadiums that are (1) new; (2) high revenue-generating as a result of numerous fan amenities and strong marketing possibilities; and (3) operated under competitive lease arrangements. “Have nots” play in stadiums that are: (1) old; (2) economically obsolete; and (3) operated under onerous lease arrangements.

The recent unprecedented level of stadium-related activity – 21 new or substantially renovated stadiums since 1995 – coupled with the fact that stadium revenues are not shared by NFL teams, has created a league filled with “haves” and “have nots.” As evidence of this trend, the spread between highest and lowest revenue quartiles for NFL teams increased from \$10 million in 1992 to \$46 million in 2001. The spread projected for 2004 is \$51 million. Clearly, the distinction between “have” and “have nots” depends more on a team’s stadium situation than on its market size.

Furthermore, the salary cap is based on average revenues from **all** NFL teams. Thus, lower-than-average revenue teams spend a higher-than-average percentage of revenues on player costs, putting them at **severe** financial risk. It is obvious that teams must have favorable stadium situations to survive in a league where player costs are effectively dictated to them.

II. FINANCIAL CHARACTERISTICS OF THE PUBLIC/PRIVATE PARTNERSHIP MODEL

There has been considerable discussion and debate surrounding the amount and extent of public participation in “entertainment infrastructure” facilities. As for the National Football League, of the 26 facilities developed and modernized since 1992, roughly \$4.4 billion has been public funding, with approximately \$2.6 billion of private equity and risk capital. On average, each new or substantially modernized NFL stadium has cost \$325.4 million. The public sector has invested an average of \$201.4 million (or 62 percent), with private equity and risk capital comprising the remaining \$124.0 million (or 38 percent). In all cases, however, **creative and flexible** public/private partnerships are absolutely necessary in developing these types of facilities.

The most recent models are characterized by a number of elements. First, the facilities are designed with as much flexibility for as many different types of events as architecturally and aesthetically possible. Second, negotiations with anchor tenants have included at least the long-term lease commitment parallel to the length of the financing, coupled with an appropriate allocation of risks and rewards based on predictable revenue streams such as PSLs, luxury suites, club seats, naming rights, and the like. Third, facility development initiatives have attempted to “bundle” as many infrastructure needs as possible in respective comprehensive initiatives. Fourth, facility financing structures have involved the private business sector, coupled with multi-level governmental cooperation from the city, county, **and** state. Fifth, the public financing components have primarily focused on bonds supported by multiple public tourist and user-oriented revenue streams directly and indirectly linked to **economic development**, **job creation**, and **long-term community growth**.

Examples of this new model abound. In Baltimore, the \$224 million stadium for the Ravens was paid for primarily by a \$200 million contribution from the Maryland Stadium Authority bond issue backed by State lottery proceeds. The \$24 million of private funds was paid for through \$10 million of upfront payments, with the balance paid over 30 years.

In Cincinnati, the \$449.8 million Paul Brown Stadium was paid for through a \$424.8 million public contribution. Hamilton County contributed \$381.3 million in revenue bonds, backed by a 0.5 percent sales tax increase; \$30 million was contributed by the State of Ohio, and \$13.5 million came from construction fund investment income. The private contribution of \$25 million was contributed from the sale of PSLs, and the team contributes revenues from naming rights at Cinergy Field, plus an annual rent payment and a 25-cent ticket surcharge.

In Cleveland, the \$300 million Cleveland Stadium was paid for with a \$212 million public contribution. The City of Cleveland issued \$138 million of Certificates of Participation, backed by a City eight percent parking tax, two percent admissions tax, hotel tax, and rental car tax, along with a County “sin tax” extension on alcohol and cigarettes. The City utilities department kicked in \$6 million; the Regional Transit Authority contributed \$3 million; and the State of Ohio contributed \$33 million to the total. The private contribution comprised \$88 million, with \$10 million from the business community (Cleveland Tomorrow), and \$78 million from team-sold PSLs and other sources.

The Detroit Ford Field is a \$471 million overall stadium project; including \$312 million for the stadium, \$43 million for site acquisition, \$39 million for parking, and \$77 million for contingencies and other costs. The public contributed \$125 million of the total, including \$40 million in Wayne County stadium bonds, backed by a one percent increase in the hotel tax to 15 percent and a two percent in the rental car tax to eight percent. Wayne County contributed \$20 million from the sale of surplus land, and \$50 million from the Downtown Development Authority. The City of Detroit provided \$15 million, along with a similar allocation for the Detroit Tigers stadium project. The private contribution included \$50 million from corporate investments for naming rights, along with the remainder of stadium debt.

In Houston, the \$424 million estimated for the stadium project includes \$310 million for Reliant Stadium construction, \$88.4 million for land acquisition and parking, and \$25.6 million for financing and other costs. The public contributed \$309 million, with \$252 million in Houston/Harris County Sports Authority bonds, backed by revenues from the hotel/motel tax, car rental tax, and mixed beverage tax. The private contribution totaled \$115 million, with \$50 million from PSL sales, and \$65 million in taxable bonds backed by the Houston Texans, Rodeo rent, parking surcharges, ticket surcharges, and sales tax rebates.

In Jacksonville, the \$161 million Alltel Stadium was paid for through a \$146 million public contribution. The City contributed \$120 million in bonds, backed by City of Jacksonville general funds, a \$2 million per-year sales tax rebate, hotel/motel tax, surcharges, naming rights, and rent. The Jaguars contributed \$15 million to the project.

In St. Louis, the \$257 million stadium was paid for completely by bonds issued through the St. Louis Regional Convention and Sports Complex Authority. The City of St. Louis backed \$57 million of bonds from general City appropriations. St. Louis County backed \$66 million of bonds from the 2.5% hotel tax. The State of Missouri provided \$134 million backed by general appropriations. The St. Louis Rams contributed no private equity to the project.

In Seattle, the \$465 million stadium project includes \$299 million for stadium construction, \$45 million for land acquisition and site preparation, and \$57 million for an exhibition facility and parking (as well as \$64 million for other costs). The public contribution was \$296 million, with \$245 million in State general obligation bonds backed by a two percent hotel/motel tax extension, 10 percent facilities admission tax, 10 percent parking tax, State lottery revenues, and State sales tax credits. The team contributed \$152 million, and provided \$17 million of PSL sales.

In Tampa Bay, the \$168 million Raymond James Stadium was paid for primarily through \$180 million in Tampa Sports Authority bonds, backed by an 0.5 percent increase in the Hillsborough County sales tax (to seven percent), along with the \$2 million per year State of Florida sales tax rebate. The Buccaneers contributed \$15 million of equity to the project.

In Tennessee, the \$292 million facility was built primarily through a \$220 million public contribution. Davidson County backed \$60 million of bonds from the Nashville water department's \$4 million annual surplus, and \$26 million was backed by the City's hotel/motel tax. The City of Nashville contributed an additional \$67 million from other sources. The State of Tennessee provided \$55 million of bonds backed by state sales taxes, and \$12 million from their infrastructure improvement fund. The private contribution of \$72 million was derived largely from the sale of PSLs.

Other creative funding techniques should be analyzed as well. Oklahoma City packaged nine facilities in a "MAPS" (Metropolitan Area Projects Strategies) referendum, raising \$262 million from a one cent, five-year, "sunsetted" sales tax. Twice approved by the voters (1993 and 1998), this process has also generated nearly \$300 million of verifiable private investment, as well as over \$1.1 billion of economic activity.

International Speedway Corporation recently completed a major league motorsports facility in Wyandotte County, Kansas. The financing was provided by a public commitment of approximately \$147 million, with the private NASCAR-related racetrack developer committing \$81.5 million of equity and risk. The State of Kansas will receive more than \$200 million of predictable annual benefit over an extended period through the promotion and marketing of NASCAR races.

The State of Florida pioneered the passage of “sales tax rebate” legislation in the mid-1980’s, diverting nearly \$2 million annually from sales taxes generated from the economic impact of stadiums, arenas, and other Florida infrastructure. The legislation has been used to develop facilities in Miami, Ft. Lauderdale, Tampa, Orlando, Jacksonville, and other Florida regions in the last 15 years.

Finally, the Province of Quebec and the City of Montreal have been creating a financing plan based on an Ernst & Young study identifying C\$14-21 million of annual publicity generated by a new baseball facility. The public sector has been developing a plan that identifies at least \$8 million annually for stadium development based on the recurring regional and national publicity.

While each situation is primarily driven by local and state financing, development, and legal considerations, it is clear that successful public/private partnerships have been viewed as long-term community and regional **investments** consistent with the generational obligation to retool and modernize critical infrastructure.

III. COMMUNITY IMPACTS AND JUSTIFICATIONS FOR “ENTERTAINMENT INFRASTRUCTURE” DEVELOPMENT

There are a number of quantifiable and intangible benefits that have been accepted by the over 100 regions that have successfully implemented major and minor league sports and entertainment facilities during this decade. ***First***, the facilities have been perceived to generate substantial economic impact during construction. A study by Conventions Sports and Leisure International suggests that the Tennessee Titans pump over \$108 million in direct spending into the Central Tennessee economy annually. The team generates \$85 million worth of personal earnings, and 2,100 jobs were generated by direct and indirect spending surrounding the Titans. CLSI surveyed fans in five NFL markets and determined that the average fan spends \$28 before and after a game in addition to money spent inside the stadium on such things as tickets, concessions, and parking.

Other economic impact studies have been developed along similar lines. According to the University of Cincinnati Center for Economic Education, the total impact of construction of Great America Park for the Cincinnati Reds and Paul Brown Stadium for the Cincinnati Bengals is \$1.1 billion. Cincinnati households are gaining \$373 million in earnings and 18,641 jobs as a result of the projects. An analysis prepared for the Maryland Stadium Authority suggests that an average Baltimore Orioles season will generate \$117 million in regional gross sales, \$44 million in earnings, and over 1,500 full-time jobs. Total statewide economic impact amounts to \$226 million in gross sales, \$77 million in earnings, and 2,340 full-time jobs. The study also suggests that 1.6 million out-of-town fans, or 46 percent of all fans, were attracted to Baltimore from outside the area. These visitors spend \$46 million in the Baltimore area representing new economic growth in the regional economy.

Second, successful projects have also generated substantial retail, sales, and development activity surrounding the facility. As Jacobs Field opened in Cleveland in 1995, more than 20 restaurants or retail establishments have opened after that; and more than 85 storefronts have been renovated at a cost of \$1.2 million. The downtown development-oriented Gateway Project has created 6,269 permanent jobs since 1994, generating \$6.5 million in payroll taxes. Representative downtown Cleveland business organizations have suggested that the facility complex has provided over 300 active dates and four million additional visitors to Cleveland after the opening of the stadium.

As a consequence of the 1995 opening of Coors Field in Denver, studies point to an increase of over \$40 million in taxable sales from the previous year; \$20 million was spent in new downtown business; and more than 25 restaurants have opened. Land adjacent to Coors Field, previously assessed at \$1.77 per square foot, recently sold for approximately \$27 per square foot. Many converted old warehouses have loft units that are selling for \$200,000 to \$300,000 per unit. One in every three tourists visiting Denver mentioned that they had attended or would like to have attended a Rockies game. Further, a report by the Phoenix Finance Department demonstrates that fans attracted to Bank One Ballpark during its first year of operation helped contribute to a 34.1% increase in City sales tax revenue in the downtown area. Retail sales through the Summer of 1998 in the Phoenix downtown core were up 93.8% over the same period in 1997. Restaurants and bars downtown saw an increase from \$40.3 million to \$52.4 million over one year. Hotels and motels in the one square mile contiguous area demonstrated a 6.6% increase, compared with a 4.3% increase city wide.

The **third** major impact and justification involves the major and special events that will be attracted to a new facility – Super Bowls and the like. Recent Super Bowls in New Orleans, Atlanta, and Miami have each generated over \$250 million to their respective local economies. A study done by Georgia State University suggests that the 2000 Super Bowl held in Atlanta created over \$292 million of economic impact, as well as \$5.9 million of direct taxes to the public sector. The Sports Management Research Institute study reported that the 1999 Miami Super Bowl created \$396 million of economic impact, \$239 million of that from direct expenditures. The PricewaterhouseCoopers study done for the 1998 Super Bowl XXXII in San Diego identified \$206.7 million of direct and indirect economic impact for the City of San Diego, \$294.6 million of County impact, and \$318.9 million of impact on the State, in addition to total new tax revenue generated of over \$15 million.

Fourth, regions recognize the intangible impact of a sports franchise and corresponding facility on its marketability and potential to attract business. Detroit unveiled an ambitious new plan earlier this year to draw millions more visitors to the region and reverse the City's image as an unsafe place. The 10-year strategic plan is expected to increase visitor spending in the metro Detroit area by an estimated \$3 billion a year and will see the creation of 31,000 new jobs. This strategy is based in large part on the opening of the new 65,000-seat Ford Field.

The Jacksonville Sports Development Authority and Chamber of Commerce suggests that the Jacksonville Jaguars and Alltel Stadium enrich the local economy by an estimated \$131 million a year from visitors buying tickets, eating at restaurants, and staying at hotels. Additionally, they believe that the new team and facility have been indirectly responsible for the creation of upwards of 50,000 new jobs by virtue of companies expanding or relocating to Jacksonville as a consequence of a successful marketing campaign. In 1997, Money magazine ranked it as the ninth best place to live in America, and the city grew more than any other city in Florida (with its metropolitan area population at only one million residents).

Fifth, while more difficult to quantify, many community leaders believe that franchises and facilities are critical components of image enhancement and community pride. A poll done after the development of Heinz Field and PNC Park in Pittsburgh revealed that 73 percent of the respondents believe that the facilities “will revitalize Pittsburgh and improve the quality of life throughout the region.” Pittsburgh Mayor Tom Murphy said that the facilities had “done more than anything in the last 25 years to shape an image of Pittsburgh in a different way.”

In its May, 1997 report, the Economic Analysis Corporation provided a perspective on the 1996 Congressional Research Service study on facility development. It concluded the following:

“Sports teams provide valuable consumption benefits to a local community. These benefits include the ability of local residents to follow and enjoy a home team, an increase in community spirit, and a potential means to draw people to downtown areas. In many respects, local government support of new stadium construction is similar to local government subsidization of other valuable local consumption activities, such as concert halls, zoos, parks, and golf courses... Sports teams are a unique type of consumption good in that they provide substantial benefits to many local citizens who do not attend the team’s games. These citizens in the local community receive valuable consumption benefits merely from the presence of a professional sports team. Since these citizens cannot be charged directly by the team for the benefits they receive, there is a stronger economic rationale for local government subsidization of professional sports teams than for most other publicly subsidized consumption activity.”

In fact, the Florida Supreme Court described the public benefits of stadium facility construction in Poe v. Hillsborough County, 695 So.2d 672 (the 1997 case validating the bonds to construct Raymond James Stadium in Tampa). The Court explained:

“(T)he Court finds that the Buccaneers instill civic pride and camaraderie into the community and that the Buccaneer games and other stadium events also serve a commendable public purpose by enhancing the community image on a nationwide basis and providing recreation, entertainment and cultural activities to its citizens.”

IV. OVERALL GUIDELINES AND PARAMETERS CONCERNING THE DEVELOPMENT PROCESS

As we continue in the new millennium of facility development, the following four guidelines and parameters are critical to successful public/private facility development for “entertainment infrastructure.”

First, with public/private facility partnerships coming under increasing public scrutiny and with local electorates constantly reassessing priorities, communities must be creative, flexible, and consistent in their facility goals and objectives. Cooperation between and among business, political, and civic leadership is an absolute necessity. Further, a Master Facility Development Process that is inclusive of all tourism, entertainment, development, and community constituencies should be undertaken. In short, a consensus building process necessarily includes the following interests: business, political, private risk capital, city government, county government, state government, developmental entrepreneurs, and technical analysts.

Second, public facilities of the new millennium will be designed as diverse entertainment and activity centers. As such, these facilities should be viewed as critical components of long-term regional infrastructure development, independent of any desire to satisfy the needs of respective major league franchises.

Third, all new facilities require development of creative public/private financing partnerships where the public sector provides investment capital to “jump start” the project. In these cases, the tangible linkage between specific public revenue sources and realistic, quantifiable return on the public investment is an absolute political and economic necessity.

Finally, these types of “entertainment infrastructure” facilities -- like any visionary public assets -- are inherently controversial and complex. Therefore, their implementation requires significant (and, potentially, unprecedented) regional support from respective business, political, and civic leadership. However, once these facilities are developed, they provide substantial economic, tangible, and psychological benefits for the entire region for years to come

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